

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

March 4, 2003

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FROM: AURELIO W. DE LA TORRE, Director
Purchasing Department

SUBJECT: CENTRAL MAIL SERVICES – RATE ADJUSTMENTS

RECOMMENDATION: Approve adjustments to Purchasing Department, Central Mail Services, rates effective July 1, 2003 (Attachment A).

BACKGROUND INFORMATION: On September 13, 1982, the Board of Supervisors established and authorized centralized mail and courier services (CMS) to provide services to county departments and special districts countywide through an internal service fund (ISF). Based on a management study conducted, the Board approved the ISF realizing several hundred thousand dollars per year would be saved by centralizing the function and reducing duplication of services including personnel, mail machines, folders/inserters, and other mail handling equipment; and, at the same time, expanding the service to include outgoing presort. Additionally, CMS would provide county service to the desert areas.

Today, CMS provides county departments with a variety of mail processing functions, including a countywide interoffice mail system, data transport service, insured mailing of ARMC high-value medication to patients, transporting Public Health specimens and bio-hazardous materials, and processing and delivering accountable mail (certified/registered) both outgoing and incoming. Outgoing mail products exceed 14 million pieces a year and 30 million pieces of interoffice mail will be delivered to county departments located in San Bernardino County by over 150,000 pickups and deliveries. Rates are currently being developed for two possible routes in the mountain areas.

Additional services include inserting, folding, labeling, and tabbing various types of mail. CMS provides "intelligent inserting services" whereby specifically designed data output products are inserted into envelopes, sealed, and posted through an on-line computer operated system. Through a contract the Board approved in October 2001, savings of approximately \$275,000 countywide on postage costs are realized by bar-coding presorted mail. CMS provides a focal point of expertise for all mail management requirements within the county. Specific services provided are included in Attachment B.

An informal cost comparison of local vendors in the Riverside/San Bernardino area for postage service rates indicates that most vendors are either not large enough to handle the county's large volume of mail or specialize in large bulk mailings requiring a minimum mailing. One vendor in Los Angeles County has no required minimum mailing, but charges \$.05 per item inserted in an envelope, where CMS proposed rate is \$.0499 regardless of the number of items inserted per envelope. In addition the vendor charges \$.05 for folding and labeling per item compared to the CMS proposed rate of \$.0240 per item.

Although costs for courier service by private vendors are difficult to compare with the services provided by CMS, preliminary estimates indicate that private vendor costs are over 35% more than the CMS proposed delivery service rates.

The workload indicators for fiscal year 2002-03 have been revised based on actual workload through December 2002. Actual and revised estimated workload indicators are as follows:

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	Actual FY 01/02	Estimated FY 02/03	Estimated FY 03/04
Outgoing/incoming mail	14,106,854	14,300,000	14,500,000
Interoffice mail	151,385	152,585	153,787
Inserting	8,198,148	8,200,000	8,300,000
Folding/tapping/labeling	12,133,771	13,000,000	13,200,000
Business reply/postage due	201,305	260,000	300,825

Recommended Rate Changes

The last rate adjustment for CMS occurred in 1998. Although as of June 30, 2002, unrestricted net assets are \$439,133, as a result of MOU increases, inflation costs, and other ISF increases, the Auditor/Controller-Recorder's compiled financial statements project a working capital deficiency of \$754,092 for fiscal year 2003-04. Because direct postage cannot be purchased on credit, advanced payments must be made, requiring CMS to increase the capital working fund and request advances from large users, because of insufficient revenue in the working capital fund. Current fiscal year direct postage costs are estimated at \$6 million. Included in the proposed rate adjustments are a repayment of a \$300,000 advance for direct postage, replacement costs for aging equipment that will have to be replaced, establishment of a working capital fund for advanced purchase of postage, and projected MOU increases.

REVIEW BY OTHERS: This item has been reviewed by the Auditor/Controller-Recorder's Office (Howard Ochi, Chief Deputy Auditor) on February 11, 2003, and the County Administrative Office (Lynn Chacon, Administrative Analyst) on February 12, 2003.

FINANCIAL DATA: The rate adjustments included in Attachment A are based on a recent internal service fund rate study compiled by the Auditor/Controller-Recorder. The rates were developed using current fiscal year expenses, current demand for services, and projected cost increases; however, as county-wide impacts of budget constraints are implemented, actual expenses and revenues may decrease due to a lower demand for services provided by CMS.

Based on a 30% spending reduction scenario (as shown below), CMS expenditures and revenues would decrease by \$1,659,344 and \$1,548,056 respectively compared to actual expenditures and revenues in 2001-02 and \$2,358,972 and \$2,425,017 respectively compared to projected expenditures and revenues in 2002-03.

	Expenditures	Revenues
2001-02 actual	\$6,858,870	\$6,893,169
2002-03 projected	\$7,558,498	\$7,770,130
2003-04 based on 30% spending reduction	\$5,199,526	\$5,345,113

COST REDUCTION REVIEW: The County Administrative Office has reviewed this agenda item, concurs with the department's proposal, and recommends this action based on an analysis of the department's budget and long-term plan. Approving the proposed adjustments will enable the department to operate in a fiscally prudent manner.

SUPERVISORIAL DISTRICT(S): All

PRESENTER: Aurelio W. De La Torre, Director, 387-2074

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